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SUBCHAPTER 1. BASIC POLICIES

1-1. Authority and Coverage

- a. This chapter contains guidance and instructions on administration of merit pay. It implements and supplements the provisions of chapter 54 of Title 5, United States Code, related provisions of law, and Part 540 of Title 5, Code of Federal Regulations. For other pay administration issues (e.g., highest previous rate, grade and pay retention, etc.), consult appropriate Federal and agency regulations, (e.g., 5 CFR 531, 5 CFR 536, 5 CFR 550, and the corresponding chapters in this manual). Guidance on merit pay cash awards is contained in OPM Personnel Manual chapter 451.
- b. These provisions apply to any position in the Office of Personnel Management (OPM) the duties and responsibilities of which meet the definition of supervisor, manager, or management official in 5 U.S.C. 7102(a)(10) and (11) and which is at the GS 12, 14, or 15 level including those positions in special rate ranges. Administrative Law Judges are excluded from coverage under merit pay by 5 U.S.C. 5372, which requires that employees in these positions be paid independent of any agency rating or recommendation.
- c. Positions having duties and responsibilities which meet the definitions of supervisor, manager, or management official as given below are identified as merit pay positions. When new positions are established or when changes occur that affect existing merit pay positions, a new determination will be made. The determination will be made when the position is established by the Office of Personnel and EEO in the central office and personnel offices in the regions. The recommendation of the supervisor of the position will be given full consideration in making the determination.
- (1) Supervisor (SGEG): Incumbents in these positions perform a wide range of duties with respect to three or more "non-support" employees and are responsible to agency management for the quality and quantity of the work done and for assuring efficient and economical work operations. Functions include responsibility for planning, organizing and reviewing work, administering personnel matters, and dealing with employees and union representatives about employee-management concerns. Typical supervisory duties include: evaluation of employee performance, recommending selections and promotions, scheduling work operations, etc.
 - (2) Manager (SGEG): Incumbents in these supervisory positions (a) direct the work of an organization, (b) are held accountable for the success of specific line or staff programs, (c) monitor the progress of the organization toward goals and periodically evaluate and make appropriate adjustments, and (d) typically perform the full range of managerial duties and responsibilities including determining resource needs and accounting for their effective use; setting policy for the organization managed in such areas as determining program emphasis and operating guidelines; and delegating authority to subordinate supervisors and holding them responsible for the performance of their organizational units.

(2)

- (3) Supervisor (5 USC 7103[a][10]): An individual employed by an agency having authority in the interest of the agency to perform at least one of the following functions: hire, direct, assign, promote, reward, transfer, furlough, lay-off, recall, suspend, discipline, or remove employees, to adjust their grievances or to effectively recommend such action. The exercise of the authority must not be merely routine or clerical in nature, but requires the consistent exercise of independent judgment.
- (4) Management Official (5 USC 7103[a][11]): An individual employed by an agency in a position, the duties of which require or authorize the individual to formulate, determine, or influence the policies of the agency.

1-2. Purpose of Merit Pay

a. The major purpose of the merit pay legislation (5 U.S.C. 54) is to provide pay-for-performance. To accomplish this, the law provides for the establishment of merit pay systems which:

- recognize and reward quality performance by varying merit pay adjustments, within available funds;
- use performance appraisals as the basis for determining merit pay adjustments;
- regulate the costs of merit pay by establishing appropriate control techniques.

b. The purpose of merit pay within OPM is to provide a consistent, fair, and equitable compensation system for senior-level General Schedule supervisors and management officials, i.e., GS employees. Specifically, the goals of the OPM Merit Pay Plan are to:

- establish an integrated compensation system incorporating merit pay salary adjustments and cash awards for appropriate recognition of overall performance including both special acts and sustained performance,
- set the salaries of merit pay employees based on actual performance against established performance standards,
- provide movement in the pay range over a period of years so that (1) the salaries of employees who consistently receive the highest performance ratings are at the top of the pay range, (2) employees who consistently receive Fully Successful ratings are in the middle of the pay range, and (3) employees have poorer ratings are in the lower portion of the pay range,

- integrate the merit pay process into the OPM general management system to include (1) OPM overall goals and priorities as established by top management, (2) the budget and accounting process, and (3) the SES and General Schedule performance appraisal programs, and
- involve merit pay supervisors and management officials in the pay-for-performance process to include (1) the development, review and revision of standards, (2) the periodic review and evaluation of performance, and (3) the setting of final salaries for the coming year.

1-3. Determining Rate of Base Pay

a. Conversion from General Schedule to General Manager

When an employee or position is converted to the merit pay system the pay system designator is changed from GS to GM. In October following the conversion, the employee will receive a merit pay determination, unless the conversion occurs within 90 days (120 days if the conversion is the result of a promotion into a merit pay position) of the end of the appraisal period. In such cases, the employee will receive a salary adjustment based on his or her grade and salary (see section 1-5 for a description of this procedure).

b. Transfer or Reassignment Without Break In Service

An employee who is transferred or reassigned, without a break in Federal service, to a merit pay position after the start of the merit pay year (corresponds to the fiscal year) will continue to receive his/her current rate of basic pay. At the start of the following merit pay year, the employee's rate of basic pay will be determined under merit pay procedures along with all other merit pay employees.

c. Promotion, Merit Pay Position to Merit Pay Position

An employee who is promoted from a merit pay position to another merit pay position at a higher grade level must receive the greater of:

- (1) the lowest whole dollar rate of basic pay within the rate range of the grade to which promoted that exceeds the employee's existing rate of basic pay by 6%; or
- (2) the minimum rate of pay at the grade to which promoted.

d. Promotion, Non-Merit Pay Position to Merit Pay Position

An employee who is promoted into a merit pay position from a non-merit pay position must receive a rate of pay equal to the rate of basic pay the employee would have received if the promotion had been to a GS position not covered by merit pay.

e. Promotion, Merit Pay Position to a Non-Merit Pay Position

An employee who is promoted from a merit pay position to a non-merit pay position at a higher grade must receive the greater of:

- (1) the minimum rate of pay of the grade to which promoted or
- (2) the lowest step in the grade to which promoted which exceeds the employee's old rate of pay increased by 6%.

f. Reversion to Non-Merit Pay Status

An employee who is reassigned or whose position loses merit pay status as a result of a prospectively effective change in merit pay coverage determination (a determination by one of the officials identified in section 1-1c.) is entitled to basic pay at the lowest rate of the grade of his or her position which is equal to or greater than his or her existing rate of basic pay.

g. Interrupted Service

An employee who is absent for a period--during which more than one merit pay increase occurred--that would be creditable service in the computation of waiting periods for successive within-grade increases in accordance with 5 CFR 531.406(c), e.g., military service, or for which the employee received credit under the back pay provisions of 5 USC 5596 and Subpart H of 5 CFR 550, is entitled to a rate which is the sum of--

- (1) the employee's rate of basic pay immediately before the interruption of his or her duty status;
- (2) the adjustments that would be required by 5 U.S.C. 5402 (c)(1) [the specified percentage of comparability] and (c)(3) [the minimum rate of basic pay of the grade of the employee's position] if the employee's duty status had not been interrupted; and
- (3) the average adjustments under 5 U.S.C. 5402(b) received by comparably situated employees (employees in the same grade and position in the pay range) while the employee's duty status was interrupted. Within OPM, the procedure, prescribed in section 1-5a of this subchapter, for determining increases for unrated merit pay employees will be used to determine the amount of the increase under this section.

1-4. Details and Temporary Service in Merit Pay Positions

a. An employee who is filling a merit pay position by a temporary promotion at the time of the general increase, is entitled to a merit pay determination. The merit pay award will not be considered permanent for an employee who has been temporarily promoted to the position. The increase will be based on an appraisal of the employee's performance in the merit pay position following the procedures described in this chapter and in chapter 430.

b. At the time such an employee returns to his or her permanent position, his or her salary will be adjusted to whatever rate it would have been if the employee had not been temporarily reassigned or promoted. The salary for a General Schedule employee will be adjusted to the step rate it would have been had the employee remained in the General Schedule. The salary of a merit pay employee will be adjusted in one of two ways depending upon whether or not an appraisal of the employee's performance in his or her permanent position was made:

- (1) Performance appraisal available: The employee's new salary will be determined on the basis of the appraisal in accordance with this chapter, as if the employee had remained in his or her permanent position.
- (2) Performance appraisal not available: The employee's new salary in his or her permanent position will be determined in accordance with section 1-5a for unrated employees.

c. Employees who are on detail to a merit pay position from a non-merit pay position do not officially occupy the position to which they are detailed. Therefore, they are not entitled to a merit pay determination based on their detail. Employees on detail from a General Schedule position continue to be eligible for within-grade increases.

d. Employees on detail from another merit pay position are entitled to a merit pay determination. The employee's official supervisor of record should take the employee's performance on the detail into consideration when making the pay determination.

e. Merit pay employees who are on detail to non-merit pay positions at the end of the rating period are still considered merit pay employees for pay purposes and are subject to the applicable procedure in this chapter for determining the merit pay increase.

1-5. Salary Adjustments of Unrated or Recently Promoted Employees

a. Unrated Employees

OPM Personnel Manual Chapter 430 prescribes a minimum period of time that an employee must serve in his or her position in order to receive a performance appraisal. Employees who have not done so prior to the end of the rating period will receive a merit increase based on their grade and position in the pay range instead of an increase based on a performance appraisal. Their pay increases will be set equal to their "contribution" to the merit pay fund as determined in accordance with OPM regulations. (The computation of the merit pay fund is based on the payroll of merit pay employees and takes into account the non-automatic portion of comparability plus an allowance for within-grade and quality step increases.) When an employee has not served in his or her position for sufficient time to be appraised, his or her salary

will be adjusted using the OPM merit pay fund computation instructions issued each year. The amount derived will be added to the automatic portion of comparability to determine the total pay increase for that employee. The salary increase beyond the automatic portion of comparability is considered a merit increase even if the the employee's performance appraisal is not used as the basis for the increase. Unrated employees who have been promoted within 120 days of the end of the rating period will have their pay increased in accordance with paragraph (b) of this section.

b. Employees who have been promoted within 120 days of the end of the rating period will not receive a merit increase based on performance but instead will receive an increase equal to the full general increase (which will include the automatic portion of the increase granted all merit pay employees). The increase granted in excess of the automatic portion of the general increase is considered to be a merit increase.

1-6. Documentation

a. The reasons for a merit pay determination and any resulting pay increase must be documented and furnished to the employee.

- (1) A written performance appraisal which has had the approval of a higher level official is considered appropriate documentation of the reasons for a merit pay determination. This should be maintained in accordance with OPM Personnel Manual chapter 430.
- (2) The Merit Pay Performance Appraisal Form will be used to transmit the summary appraisal rating to the Office of Personnel and EEO. A copy must also be provided to the employee. The Office of Personnel and EEO will maintain these forms for no less than 3 years.
- (3) Merit Pay Pool Managers will be responsible for transmitting the Merit Pay Worksheet to the Office of Personnel and EEO. The Office of Personnel and EEO will maintain these forms for no less than 3 years.
- (4) The employee will receive a copy of the SF-50, Notification of Personnel Action.
- (5) Additional records required under Office of Personnel Management regulations will be maintained according to the Office's instructions.

b. All employee records related to the merit pay determination (i.e., payroll, Official Personnel Folder, or Employee Performance File) constitute a system of records covered by 5 CFR 293.

1-7. Training

All employees converted to merit pay will receive training on the purpose and operation of the merit pay system. Training will be offered to newly converted employees at least annually.

1-8. Grievances

An employee who believes that his or her designation as a supervisor or management official is incorrect or that the performance appraisal is not accurate may file an administrative grievance in accordance with OPM Personnel Manual procedures prescribed in chapter 771. The dollar amount of a merit increase is not grievable.

SUBCHAPTER 2. DETERMINATION AND ALLOCATION OF OPM MERIT PAY FUND

2-1. Computation of the OPM Merit Pay Fund

a. The OPM merit pay fund is computed each year using the Merit Pay Fund Computation Table included in the Government-wide instructions issued by the Office of Personnel Management.

b. The computed merit pay fund is the basis for merit pay increases. Regulations require that the sum of merit pay increases awarded in a year be no less than 95% nor more than 105% of the computed merit pay fund (5 C.F.R. 540.103[d]).

2-2. Pool Configuration

a. The computed OPM merit pay fund is allocated primarily along organizational lines with each group and region, and some staff offices designated as a primary "pool". The pro-rate fund for each pool is determined by the sum contribution of the merit pay employees of the organization to the overall OPM merit pay fund. The merit pay pool manager may distribute 95-105% of the computed fund.

b. The allottee may group all merit employees into a single pool or subdivide along organizational or functional lines into a number of pools. The minimum size of an OPM merit pay pool is five merit pay employees. The minimum of five is primarily to enable small organizations to have separate merit pay identity. Preferably, the minimum size of a merit pay pool is ten merit pay employees since this number generally ensures a more representative sample of ranges and distributions of ratings on which merit pay is based.

2-3. Designation and Management of Merit Pay Pools

a. Definitions

- (1) Merit pay fund--the amount of agency money to be allocated to merit pay increases, as determined through application of appropriate Merit Pay Fund Computation Tables.
- (2) Merit pay pool--that portion of the agency identified by agency management as having an optimum number of merit pay positions to facilitate internal management of its merit pay plans and to which funds are allocated for distribution as merit increases to covered employees.

- (3) Allottee--the manager who has responsibility for the merit pay funds for his or her organizational component. The allottee has the option to sub-divide an organization along functional lines into sub-pools in order to compensate for managerial or program disparities that affect the general level or distribution of ratings in various parts of the organization. When this option is exercised, the allottee also designates a merit pay pool manager for each sub-pool.
- (4) Merit Pay Pool Manager--the individual responsible for the management and administration of merit pay within an organization. All primary allottees are merit pay pool managers. In organizations that opt to sub-divide, a manager must be formally designated by the primary allottee for each pool established. His or her principal role is to ensure equity in standards, ratings, and resultant payouts amongst the included organizations.
- (5) Merit pay determination--the decision as to the amount of the merit pay increase (including a zero amount).
- (6) Merit pay increase--the increase in basic pay for a merit pay employee in excess of that granted automatically under 5 U.S.C. 5402 (c)(1) or (c)(3).

b. Responsibilities of Merit Pay Pool Managers

- (1) Merit pay pool managers are responsible for achieving the specific goals and purposes of merit pay identified by the Director of OPM. In doing this, they are to be guided by the content of this chapter and by instructions issued by the Office of Personnel and EEO.
- (2) There are a number of management practices applicable to merit pay program administration that improve the chances for program acceptance and success. They include:
 - the integration of the performance appraisal and merit pay processes into the total management planning cycle,
 - the establishment of clear expectations for all levels of management in the merit pay pool and the employees covered by the merit pay system,
 - the active participation of the manager in the performance planning and review process to accomplish appropriate salary adjustments and achieve cost efficiencies,
 - the participation of affected merit pay employees in the development of performance standards,
 - the consistency and equity of the standards developed for all positions at each grade level within the organization,

- the consistency of standards with the definitions of rating levels provided in section 3-2.
- the periodic feedback to merit pay employees of their performance against the standards developed,
- the review of the performance appraisal rating distribution to assure that the ratings reflect the definitions of rating levels provided in section 3-2, and
- the review to assure that there is a correlation between salary adjustments and the level(s) of productivity amongst various functional elements of the organization.

c. To assist merit pay pool managers in controlling the funds in the merit pay pool, they will be provided with a Merit Pay Worksheet (Appendix A). The Merit Pay Worksheet contains provisions for the restrictions on salary contained in section 4-2.

SUBCHAPTER 3. MERIT PAY PERFORMANCE APPRAISALS

3-1. General

- a. The OPM performance appraisal system described in the OPM Personnel Manual, chapter 430, requires that performance element(s) be established for the important aspects of each job.
- b. The performance appraisal period for OPM merit pay employees is October 1 through September 30 of each year in order to tie appraisals to the budgetary cycle. At the end of the appraisal period, the supervisor shall complete a formal appraisal of the employee.

3-2. Appraisal Ratings

a. Based on the employee's appraisal on the performance element(s), the supervisor must determine a summary rating. The rating describes the level of achievement for both individual elements and the summary rating. There are five levels of achievement for the summary rating: Unacceptable, Minimally Successful, Fully Successful, Exceeds Fully Successful or Outstanding. The definitions for these levels are as follows:

- Outstanding means performance which significantly exceeds management expectations and represents a level of performance which only a few employees could be expected to achieve. Performance is appraised by the rater as being outstanding because of stringent demands in terms of factors such as commitment in time, technical knowledge and skill, ingenuity, creativity and initiative.
- Exceeds Fully Successful means performance that is less than that needed to satisfy the stringent criteria for Outstanding but is consistently above that required for Fully Successful.
- Fully Successful specifies performance that fully meets the requirements of the job. Performance at this level consistently meets the expectations for the job. Fully Successful denotes solid and consistent performance and should be descriptive of the great majority of the work done by OPM merit pay employees.
- Minimally Successful means performance which does not consistently meet the expectations and requirements for the Fully Successful level. This may be evidenced by the need for greater supervisory review, discussion and correction than is necessary at the Fully Successful level. When performance falls below Fully Successful, it may be necessary to take remedial action.
- Unacceptable means performance which fails to meet established performance standards in one or more critical elements of such employee's position. When performance is Unacceptable, corrective action must be taken.

b. Employees covered by the single generic standard receive only a summary rating. When the performance plan has multiple elements, "critical" performance elements should be identified at the beginning of the appraisal period. Critical elements are defined in OPM Personnel Manual chapter 430. Furthermore, the relative importance of the critical elements should also be identified at the beginning of the appraisal period or as early as possible. Program priorities may change during the course of the year and result in new or revised employee duties and responsibilities. The importance of performance elements may be amended to reflect these changes. Any changes must be explained to the employee. Importance to the job should be thought of as the value of the element in relation to other elements that comprise the employee's job. Importance is not the same as time spent on an element by the employee. Among critical elements relative importance may vary. "Critical elements" are those which may lead to failure if not performed at least minimally successfully. "Important elements" are those which comprise a significant share of what the employee is paid to do and may lead to success when performed above the Fully Successful level.

c. The supervisor should determine the summary rating by taking into account the rating on each performance element and the relative importance of each performance element to overall job accomplishment; contribution of the performance element to the organizational mission; the length and amount of time necessary to accomplish the responsibilities addressed in the performance element; and the relative difficulty of the performance element. The final decision on an appropriate summary rating, whether the employee's performance plan contains multiple or a single element(s), should be determined by considering whether the employee's overall performance meets the definition for the rating level given above (section 3-2a). Additional guidance on the assignment of a summary rating is shown below.

Guidance when Performance Plan contains Multiple Elements

<u>Summary Rating</u>	<u>Ratings on Performance Elements</u>
Outstanding	Outstanding or the highest level possible on all of the important elements of the performance plan. No rating below Exceeds Fully Successful or the highest level possible.
Exceeds Fully Successful	Ratings of Exceeds Fully Successful or the highest level possible on all the important elements of the performance plan. No rating below Fully Successful or the highest level possible.
Fully Successful	Ratings of Fully Successful on all of the important elements of the performance plan. No unsatisfactory ratings.
Minimally Successful	Ratings of Minimally Successful on all of the important elements in the performance plan.
Unacceptable	Rating of unacceptable on at least one critical element.

3-3. Review of Appraisals

Prior to submitting the summary appraisals and pay determinations to the Office of Personnel and FEO, the ratings must be approved by a higher level official to assure fairness and consistency to employees within the organization (unless there is no higher level official in OPM). Merit pay increases must also be reviewed and receive the final approval of the allottee. Ratings and merit pay increases may not be communicated to employees until after all reviews are completed.

3-4. Amended Performance Appraisal

Should the performance appraisal be the subject of a grievance at the time the merit pay adjustments are being computed, it will be used as is, pending the outcome of the grievance. This approach will also apply where the appraisal is the subject of an active FEO complaint, prohibited personnel practice complaint, or any other appeal or investigatory process. If, and when, the resolution of the grievance involves a change to the appraisal, the employee's merit increase will be recomputed. The effective date for the revised salary will be retroactive to the date of the original increase.

SUBCHAPTER 4. MERIT PAY DETERMINATION

4-1. Determination of Merit Pay Increase Percentage

a. The ranges of possible merit pay increases for merit pay employees are based on the following factors:

- (1) Position in the Pay Range. Each GM grade will be divided into thirds. These divisions will be linked to steps on the General Schedule which coincide with waiting periods for within-grade increases: Steps 1 through 3, including salaries above step 3 and less than step 4, (lower third), Steps 4 through 6, including salaries above step 6 and less than step 7, (middle third), and Steps 7 through 10 (upper third). Movement within the GM grade will be a function of performance, rather than longevity. Percentage merit pay increases for employees rated Fully Successful or higher will vary inversely with the employees' position in the pay range. Movement from the lower third of the pay range up to and through the middle third will be accelerated so that outstanding performers can move faster to their eventual position in the pay range. The acceleration will diminish somewhat upon reaching the upper third of the pay range, until the maximum salary for the grade is attained.
- (2) Performance appraisal summary rating. Employees who receive summary ratings below Fully Successful will receive one-half of the general increase for General Schedule employees, which is required under the law. Employees rated Fully Successful or above will receive at least the full general increase.
- (3) Percentage Increase Matrix. Once position in the pay range and summary ratings are determined, the OPM Merit Pay Percentage Increase Matrix will be used to determine the minimum and maximum percentage increases possible for each employee (See Appendix B). Appendix B will be revised whenever the annual pay adjustment is changed by Congress. Merit pay determinations within these ranges must comply with section 4-2.
- (4) Management Discretion. Performance appraisal summary ratings are the basis for all salary adjustment decisions. However, the specific amount of the merit increase will depend on the distribution of summary ratings, the availability of funds, and managers' decisions about the percentage increase to award within the range of flexibility provided by the percentage increase matrix.

b. Careful monitoring of performance appraisal standards and ratings will lead to a distribution of ratings which can accommodate the percentage increase matrix and remain within available funds. In the event that the cumulative merit increases for a merit pay pool do not fall within the range of 95 to 105 percent of available funds, then individual pay adjustments may be used when absolutely necessary. These adjustments will be made through a reconciliation of the initial merit pay pool distribution of merit pay increase funds to employees receiving ratings of Fully Successful or above. Employees receiving ratings of Minimally Successful and Unsatisfactory are not affected by pool reconciliations since they do not receive merit pay increases. Employees rated Fully Successful are guaranteed at least the full general increase, regardless of budget reconciliation. An approach to budget reconciliation is described in Appendix C.

4-2. Salary Constraints

a. Minimum pay range. An employee who is at or near the minimum of the pay range whose total pay increase (the automatic portion of the general increase plus merit increase) does not raise his or her salary up to the new minimum rate of pay for the grade will have his or her salary adjusted upwards to the new minimum rate. None of the funds needed to bring an employee's salary up to the new range minimum count against the merit pay fund for an organization but are considered as a part of the employee's merit increase. (The minimum pay range is listed on the Merit Pay Worksheet under the column labeled "Minimum Salary".)

b. Maximum pay range. An employee whose new pay would be above the maximum pay for his or her grade will receive only that portion which puts his or her pay at the maximum. Funds in excess of the maximum pay range are available to the merit pay pool manager to be distributed to other employees in the same merit pay pool. (Footnote (e) on the Merit Pay Worksheet lists the maximum salary that may be given.)

c. Statutory Pay Ceiling in 5 USC 5308 (Congressional Ceiling). The actual rate of pay received by an employee cannot exceed ceilings established by Congress. However, for all merit pay computations (e.g., computing the merit pay fund and determining a merit increase) the employee's scheduled rate of pay will be used (subject only to the maximum pay range restriction described above). A pay increase in excess of the pay limitation in 5 USC 5308 will be awarded on paper but will not be added to the fund to be distributed to other employees (as it is with the capped funds from the maximum pay range and maximum rate of increase above). Should the pay limitation be raised, the employee's pay will be automatically adjusted to the scheduled rate of pay or new ceiling, whichever is lower.

d. Performance Ceiling. In order to preserve the upper third of the pay range for top performers, employees in the upper third of the pay range rated Fully Successful are limited to the full general increase. Pool managers must follow the Percentage Increase Matrix which gives no discretion in awarding percentage increases for these employees.

e. Pay Inversion. For employees in the same merit pay pool and third of the pay range, an employee may not receive a greater percentage increase than higher rated employees with same or lower salary prior to the merit increase. The salary of employees in the same merit pay pool and third of the pay range after the merit increase, cannot exceed higher rated employees who had a higher salary prior to the merit increase. (See Appendix E for examples of pay inversion.)

Organization: _____

--SAMPLE--

Appendix A
Merit Pay Worksheet

1 NAME	2 GRADE	3 CURRENT SALARY	4 NEW MINIMUM SALARY(a)	5 1/2 GENERAL INCREASE	6 MINIMUM SALARY FOR FS(b)	7 PAY RANGE POSITION	8 SUMMARY RATING	9 PERCENT- AGE INCREASE(c)	10 DOLLAR MERIT INCREASE	11 NEW SALARY(e)
1	13	34182	34930	684	35550	1	----	----	----	----
2	13	34182	34930	684	35550	1	----	----	----	----
3	13	35059	35760	701	36461	1	----	----	----	----
4	13	35156	35859	703	36562	1	----	----	----	----
5	13	35302	36008	706	36714	1	----	----	----	----
6	13	35302	36008	706	36714	1	----	----	----	----
7	13	36423	37151	728	37879	1	----	----	----	----
8	13	36423	37151	728	37879	1	----	----	----	----
9	13	36946	37685	739	38424	2	----	----	----	----
10	13	37261	38006	745	38751	2	----	----	----	----
11	13	37261	38006	745	38751	2	----	----	----	----
12	13	37625	38378	753	39131	2	----	----	----	----
13	13	38383	39146	768	39914	2	----	----	----	----
14	13	39501	40291	790	41081	2	----	----	----	----
15	13	40525	41336	811	42147	3	----	----	----	----
16	13	41646	42479	833	43312	3	----	----	----	----
17	13	42763	43618	855	44473	3	----	----	----	----
18	14	41582	42414	832	43246	1	----	----	----	----
19	14	45530	46441	911	47352	2	----	----	----	----
20	14	46068	46989	921	47910	2	----	----	----	----
21	15	47879	48837	958	49795	1	----	----	----	----
22	15	51353	52380	1027	53407	2	----	----	----	----
23	15	58160	59323	1163	60486	3	----	----	----	----

TOTAL = 18491
(d)TOTAL = ----
(d)

- (a) NEW MINIMUM SALARY = CURRENT SALARY + 1/2 GENERAL INCREASE OR THE NEW MINIMUM FOR THE GRADE, WHICHEVER IS HIGHER.
- (b) ALL EMPLOYEES RATED "FULLY SUCCESSFUL" OR BETTER MUST RECEIVE FULL GENERAL INCREASE. IF AN EMPLOYEE RECEIVES A RATING LESS THAN "FULLY SUCCESSFUL," SUBTRACT THE "1/2 GENERAL INCREASE" FROM THE TOTAL OF COL. 5 AND ADJUST COL. 6.
- (c) THE PERCENTAGE INCREASE IS DETERMINED BY THE PERCENTAGE INCREASE MATRIX. THE MATRIX PROVIDES A RANGE OF PERCENTAGE INCREASES FOR THE EMPLOYEE'S PAY RANGE POSITION AND SUMMARY RATING. THE MATRIX INCLUDES THE NON-AUTOMATIC PORTION OF THE GENERAL INCREASE WHICH IS LISTED IN COL. 5 OF THE WORKSHEET, THUS COL. 10 SHOULD NOT INCLUDE THIS AMOUNT.
- (d) TOTAL OF COL. 5 + COL. 10 MUST BE BETWEEN 95% AND 105% OF THE POOL (\$36,843 - 40,721); ADJUST COL. 10 UNTIL TOTAL FALLS WITHIN RANGE.
- (e) NEW SALARY MAY NOT EXCEED THE SALARY FOR STEP 10 OF THE EMPLOYEE'S GRADE. (GM-13 = \$45,406; GM-14 = \$53,661; GM-15 = \$63,115).

Appendix B

Percentage Increase Matrix

Summary Appraisal	Position in Pay Range (in thirds)		
	Lower	Middle	Upper
Outstanding	8.0 - 10.0	4.0 - 6.5	3.0 - 4.0
Exceeds Fully Successful	4.0 - 6.0	3.0 - 4.0	2.0 - 3.0
Fully Successful	2.5 - 4.0	2.0 - 3.0	2.0
Minimally Successful	0	0	0
Unacceptable	0	0	0

The matrix assumes a general increase of 4%. Percentage increases are in addition to the automatic portion of the general increase (2%).

APPENDIX C BUDGET RECONCILIATION

Reconciliations of pool distributions will result in larger merit pay increases when the initial distribution is less than 95 percent of available funds and reduced merit pay increases when the initial distribution exceeds 105 percent. The amount of the reduction is determined by dividing the available Merit Pay pool amount by the recommended allocation to determine the adjustment factor. The adjustment factor is then multiplied by each employee's recommended allocation, in order to determine each employee's modified merit increase amount.

In severe cases, the performance scores may be so high that it would be necessary to pay the minimum amount in each cell and then go back and add enough percentage points (probably in tenths of percent at most) to correct pay inversions until the funds in the merit pay pool are depleted.

This example demonstrates the budget reconciliation procedure when the recommended allocations result in a total above the amount in the merit pay pool. The manager has recommended a percentage increase for each employee which has been translated into dollars. The total increases recommended for the pool equal \$43,876. This exceeds 105% of the merit pool which is \$40,721.

In order to find the adjustment factor the following formula is applied:

funds available	÷	total recommended	=	adjustment factor
in merit pay pool	÷	increase		
40721		43876		.9280

To find the adjusted recommended increase for an employee the following formula is used:

recommended increase	X	adjustment factor	=	adjusted merit increase
2735	X	.9280	=	2538

Thus, the merit increase for the employee is reduced from \$2,735 to \$2,538. Using this procedure, the amount of the merit increase relative to other employees remains unchanged, rather than compressing differences between merit increases.

Appendix D

Pool Configuration

<u>Allottee</u>	<u>Pool Manager</u>	<u>Number of Employees*</u>
Director, OPM	Director, OPM (Office of Director/Deputy, OGC OPC, OGE, and OCR)	30
Inspector General	Inspector General	22
Associate Director for Administration	Associate Director for Administration (Program Management Division, Office of Finance and Budget, Office of Inter- Agency Coordination, Office of Executive Personnel)	12
	Assistant Director for Management (Management Support Services/Management Policy and Projects Staff)	13
	Assistant Director for Management (Information Management Division)	22
	Assistant Director for Personnel and EEO	23
Associate Director for Compensation	Associate Director for Compensation	77
Associate Director for Compliance and Investigations	Assistant Director for Agency Compliance and Evaluation (ACE and Program Management)	9
	Assistant Director for Work Force Information	10
	Assistant Director for Personnel Investigations	14
Associate Director for Staffing	Associate Director for Staffing	38
Associate Director for Workforce Effectiveness and Development	Associate Director for Workforce Effectiveness and Development (All other than Training and Performance Management)	28
	Assistant Director for Training	27
	Assistant Director for Performance Management	18

Director, Southeast Region	Director, Southeast Region	30
Director, New England Region	Director, New England Region	20
Director, Great Lakes Region	Director, Great Lakes Region	27
Director, Southwest Region	Director, Southwest Region (WED)	6
	Director, Southwest Region (SSD)	11
	Director, Southwest Region (PID, ACE, MSD, LRO)	9
Director, Rocky Mountain Region	Director, Rocky Mountain Region	17
Director, Eastern Region	Director, Eastern Region	27
Director, Mid-Atlantic Region	Director, Mid-Atlantic Region	27
Director, Mid-Continent Region	Director, Mid-Continent Region	11
Director, Western Region	Director, Western Region	29
Director, Northwest Region	Director, Northwest Region	14

* The number of employees is based on covered merit pay employees in 1982.

Appendix E

Pay Inversion

Example 1: Employee A has a current salary of \$34,930 (step 1 of the GS pay system) and employee B has a current salary of \$37,258 (step 3 of the GS pay system). Both employees are in the lower third of the pay range. Employee A receives a summary rating of Exceeds Fully Successful and a merit increase of 4%. If employee B receives a summary rating of Fully Successful, then he or she may not receive a merit increase above 4%. Employee A had a lower starting salary and higher rating. Therefore, Employee B may not receive a greater percentage increase than Employee A.

Example 2: Employee C, a GM 13 whose current salary is \$34,930 (step 1 of the GS system), and employee D, a GM 13 employee receiving \$37,258 (step 3 of the GS system), are both in the lower third of the pay range although their salaries differ by about 6%. Employee D receives a summary rating of Exceeds Fully Successful and a merit increase of 4%. Employee C receives a summary rating of Fully Successful. If the manager gives Employee C a merit increase of 3%, this would mean that the difference in salaries between Employee C and Employee D would be increased to 7%. The manager may decide that this difference is not an appropriate distinction for the difference in performance between the two employees. The manager may preserve the 6% difference by giving Employee C a merit increase of 4% or may lessen this difference to 5% by giving Employee C a merit increase of 5%. The manager has the discretion to make these adjustments since Employee D had a higher starting salary and summary rating, as long as Employee C's final salary does not exceed Employee D's final salary.